

Control Number: 46107



Item Number: 1

Addendum StartPage: 0



T.B.P.E. #F-8632

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Suite 250
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46107

2016 JUN 29 PM 2:09
PUBLIC UTILITY COMMISSION
FILING CLERK

June 24, 2016

Public Utility Commission of Texas
Attention: **Filing Clerk**
1701 N. Congress Avenue
P.O. Box 13326
Austin, Texas 78711-3326

RE: Application for Sale, Transfer, or Merger (STM) of a Retail Public Utility
Bethany/Hearne Water Supply Corporation (WSC)- City of Hearne

To Whom it May Concern,

Enclosed is the Request for the transfer of water utility services from Bethany/Hearne WSC to the City of Hearne.

TRC is including in this application the following information for your review:

- o Seven (7) copies of the Application for Sale, Transfer, or Merger of a Retail Public Utility
- o No electronic medium is enclosed containing GIS information. Please see Attachment C.

Please contact Ms. Amber McCullough, E.I.T, at 512-684-3120 or amccullough@trcsolutions.com if you need addition information or have any questions.

Sincerely,

Charles Scheler, P.E.
Sr. Project Manager





Application for Sale, Transfer, or Merger of a Retail Public Utility
Pursuant to Chapter 13.251 of the Texas Water Code

Docket Number:

46107

(this number will be assigned by the Public Utility Commission after your application is filed)

7 copies of the application, including the original, along with one copy of the portable electronic storage medium (such as CD or DVD) containing the GIS data shall be filed with

Public Utility Commission of Texas
Attention: Filing Clerk
1701 N. Congress Avenue
P.O. Box 13326
Austin, Texas 78711-3326

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FILING CLERK

No later than seven days after filing the application for the boundary change, provide a copy of each paper map and a portable electronic storage medium (such as CD, flash drive or DVD) containing complete and identical data to the portable electronic storage medium submitted above to

Texas Natural Resources Information System
1700 N. Congress Ave, Room B40
Austin, Texas 78701

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Part A – General Information

*RN# 101203180 *CN# 600647655 * (PRIOR TCEQ ID numbers)

1. Proposed action of application (check all the boxes that apply):

☐ Sale of ☐ All ☒ Portion of the ☒ Water system(s) under CCN No.: 10330
☒ Acquisition ☐ Sewer system(s) under CCN No.:
☐ Lease/Rental

☐ Transfer of ☐ All ☐ Portion of the ☐ Certificated water service area – CCN No.:
☐ Certificated sewer service area – CCN No.:

If only a portion of a system or certificated service area is affected by this transaction, please specify the areas or subdivision involved:

and to:

☒ Obtain a CCN for the transferee (purchaser) – indicate if purchaser will take the seller's CCN
☐ Amend the transferee's CCN No.:
☐ Merge or consolidate public utilities
☐ Cancel CCN of the transferor (seller)

2. Proposed effective date of this transaction: 5/1/2013
(Must be at least 120 days after proper notice is provided)

Part B – Current Service Provider or Seller Information

Questions 3 through 5 apply to the transferor (current service provider or seller)

3. For the current CCN holder or service provider please indicate:

A. Name: Bethany Hearne Water Supply Company
(Individual, Corporation or Other Legal Entity)

who is a(n):of ☐ Individual ☐ Corporation ☒ WSC ☐ HOA or POA ☐ Other

B. Utility Name (if different than above):
Address: 5456 FM 2549 Hearne, Texas, 77859 Telephone: (AC) (281) 279-5433

C. Contact person. Please provide information about the person to be contacted regarding this application. Indicate if this person is the owner, operator, engineer, attorney or accountant.

Name: Ronnie Vaughn Title: President
Address: 5644 FM 2549 Telephone: (AC) (979) 279-3461

Fax: (979) 279-2431

Email: tthomas@cityofhearnes.com

4. About the last rate increase for the system or facilities being transferred:

A. What was the effective date of the last rate increase?

5/1/2013

B. Was notice of this increase provided to the Public Utility Commission of Texas (commission or PUC) or a predecessor regulatory authority?

☒ No ☐ Yes- Application/Docket Number:

Date

5. Please provide a list of all customers affected by this transaction who have deposits held by the transferor or seller utility, if any, and include the following information (attach additional sheets if necessary):

Name and Address of Utility Customer	Date of Deposit	Amount of Deposit	Amount of Unpaid Interest on Deposit
N/A			

Part C – Purchaser or Transferee Information

Questions 6 through 16 refer to the transferee or purchaser.

6. For the person or entity acquiring the facilities and/or CCN:

Applicant: City of Hearne

(Individual, Corporation, or Other Legal Entity)

Utility Name: City of Hearne

(If different than above)

Utility Address: 209 Cedar St, Hearne, Texas, 77859

Fax: (979) 279-2413

Email:

Telephone (AC): (979) 279-3461

CCN Numbers held prior to the filing of this application: 600245286

7. Check the appropriate box and provide information regarding the legal status of the transferee applicant:

☐ Individual

☐ Home or Property Owners Association

☐ Partnership; attach copy of partnership agreement

☐ Corporation; provide charter number as recorded with the Office of the Secretary of State for

Texas:

☐ Non-profit, member owned, member-controlled Cooperative Corporation (Article 1434(a) Water Sewer Service Corporation); provide charter number:

<input checked="" type="checkbox"/>	Municipally-owned utility
<input type="checkbox"/>	District (MUD, SUD, WCID, etc.)
<input type="checkbox"/>	County
<input type="checkbox"/>	Other (please explain):

8. If the applicant is an *Individual* or sole proprietorship, provide the following information. If not, skip to the next question.

Name:	N/A	Email:	
Address:			
Telephone (AC):		Fax (AC):	

9. If the applicant is other than an *Individual*, provide the following information regarding the officers or partners of the legal entity applying for the transfer. You must complete either question 8 or question 9, whichever applies to the transferee applicant.

•Name:	Ruben Gomez	Telephone (AC):	(979) 279-3461
Address:	209 Cedar St, Hearne, Texas, 77859		
Position:	Administrative Contact-Mayor	Ownership % (if applicable):	0.00%

•Name:	Peewee Drake	Telephone (AC):	(979) 279-3461
Address:	209 Cedar St, Hearne, Texas, 77859		
Position:	Financial Contact-City Manager	Ownership % (if applicable):	0.00%

•Name:		Telephone (AC):	
Address:			
Position:		Ownership % (if applicable):	0.00%

•Name:		Telephone (AC):	
Address:			
Position:		Ownership % (if applicable):	0.00%

•Name:		Telephone (AC):	
Address:			
Position:		Ownership % (if applicable):	0.00%

•Name:		Telephone (AC):	
Address:			
Position:		Ownership % (if applicable):	0.00%

- Attach additional sheet(s) if necessary -

- Important:** • If the applicant is a for-profit corporation, please provide a copy of the corporation's "Certification of Account Status" from the State Comptroller Office. This "Certification of Account Status" can be obtained from:

Texas Comptroller of Public Accounts
P. O. Box 13528, Capitol Station
Austin, Texas 78711
1-800-252-5555

- If the applicant is an Article 1434a water supply or sewer service corporation or other non-profit corporation, please provide a copy of the Articles of Incorporation and By-Laws.

10. Contact person. Please provide information about the person to be contacted regarding this application. Indicate if this person is the owner, operator, engineer, attorney or accountant.

Name:	Charles Scheler	Title:	Engineer
Address:	505 E Huntland Dr., Ste 250, Austin, Texas, 78752	Telephone (AC):	(512) 454-8716
Fax #	(512) 454-2433	Email	
Relationship to the applicant:	Engineer		

IF THERE ARE MORE THAN TWO PARTIES INVOLVED IN THIS TRANSACTION, PLEASE ATTACH SHEETS PROVIDING THE INFORMATION REQUIRED IN QUESTION 6 THROUGH QUESTION 10 FOR EACH PARTY

11. Please respond to each of the following questions. Attach additional sheets if necessary.

- A. Describe the experience and qualifications of the applicant to provide adequate utility service to the requested area

Applicant has experience providing utilities to the entire city of Hearne.

- B. Has the applicant acquiring the CCN or facilities or an affiliated interest of the applicant been under enforcement action by the PUC, TCEQ, Texas Department of Health (TDH), the Office of the Attorney General (OAG) or the Environmental Protection Agency (EPA) in the past for noncompliance with rules, orders or State Statutes? ☒ Yes ☐ No

If yes, please attach copies of any correspondence with these regulatory agencies concerning these enforcement actions and describe any actions and efforts to comply with those requirements. Attach additional sheets if needed.

See Attachment B

- C. Describe the source and availability of funds required to make the planned or required improvements, if any, to meet minimum requirements of the TCEQ and PUC and ensure continuous and adequate service.

General Fund

D. Describe the anticipated impact of this transaction on the quality of utility service and explain any anticipated changes in the quality of service.

No major impact is anticipated. Quality of service will be maintained.

E. How will the transaction serve the public interest?

Transaction will allow for drinking water to be served to the public in the acquired area.

12. Please describe the nature of the proposed transaction:

City of Hearne is acquiring the water lines of an adjacent water corporation and incorporating into their existing municipality.

13. If the transferee applicant is an Investor Owned Utility (IOU) and will be under the rate jurisdiction of the PUC, please provide the following information. Water supply or sewer service corporations and political subdivisions of the state should mark this section N/A:

A.

- Total Purchase Price: \$ 0.00
- Total Original Cost (as recorded on books of seller or merging entity):
- Accumulated Depreciation as of the proposed effective date of the transaction:
- Contributions in Aid of Construction:
 - Specific surcharges approved by TCEQ or PUC:
 - Revenues from explicit customer agreements:

- Developer Contributions (please explain):

- Other Contributions (please explain):

Total Contributions in Aid of Construction

• Net Book Value:

- ☐ If the Original Cost or any of the above items has been established in a rate case proceeding by the PUC, the TWC or the TCEQ, please provide the Application/Docket Number and date:

Application/Docket Number: Date:

- ☐ If the applicant is not under the rate jurisdiction of the TCEQ, only the purchase price and information related to Contributions in Aid of Construction is required.

Please provide any other information concerning the nature of the transaction you believe should be given consideration if not explained elsewhere in the application.

[attach additional sheet(s) if necessary]:

<div></div>

- C. Complete the following proposed entries listed below as shown in books of purchasing (or surviving) company. Additional entries may be made; the following are suggested only, and not intended to pose descriptive limitations.

Utility Plant in Service:	N/A
Plant Acquisition Adjustment:	
Extraordinary Loss on Purchase:	
Accumulated Depreciation of Plant:	
Cash:	
Notes Payable:	
Mortgage Payable:	
Others (please list):	

As the purchaser, I understand that it is **my responsibility** in any future rate proceeding to provide written evidence and support for the original cost and installation date of all facilities used and useful for providing utility service.

Purchaser's Initials: Date:

14. Please indicate the proposed effect of this transaction on the rates to be charged to the affected customers:

<input checked="" type="checkbox"/>	All the customers will be charged the same rates as they were charged before the transaction.
<input type="checkbox"/>	Some <input type="checkbox"/> All customers will be charged different rates than they were charged before the transaction.

If rates are changing, please explain:

☐ Applicant is an IOU and intends to file with the commission or municipal regulatory authority an application to change rates of some/all of its customers as a result of this transaction. If so, please explain:

☐ Other. Please explain:

15. List all neighboring water and /or sewer utilities, cities, and political subdivisions providing the same service within two (2) miles of area affected by this proposed transaction. This information should be available from the water utility database (WUD) or Applicant's licensed water operator.

Robertson County WSC, Wellborn SUD, City of Hearne Sewer

16. Financial, Managerial and Technical information for the acquiring entity.

Part D – Historical Financial Information

HISTORICAL BALANCE SHEETS	CURRENT YEAR (A)	A-1 YEAR	A-2 YEAR	A-3 YEAR	A-4 YEAR	A-5 YEAR
CURRENT ASSETS						
Cash	See Attachment A				546,600.00	618,400.00
Accounts Receivable					1,756,200.00	2,172,500.00
Inventories					109,700.00	143,100.00
Income Tax Receivable						
Other					2,180,200.00	1,834,800.00
Total					4,592,700.00	4,768,800.00
FIXED ASSETS						
Land					203,900.00	203,900.00
Collection/Distribution System					22,415,800.00	22,049,800.00
Buildings					6,061,400.00	5,809,200.00
Equipment					1,003,600.00	958,000.00
Other					2,361,900.00	2,350,600.00
Less: Accum. Depreciation or Reserves					17,776,000.00	16,998,800.00
Total						
TOTAL ASSETS						
CURRENT LIABILITIES						
Accounts Payable					801,400.00	1,096,900.00
Notes Payable, Current					667,300.00	85,500.00
Accrued Expenses					33,800.00	31,300.00
Other					313,400.00	286,400.00
TOTAL					1,815,900.00	2,269,600.00
LONGTERM LIABILITIES						
Notes Payable, Long-term					7,161,600.00	7,615,400.00
Other					0.00	0.00
TOTAL LIABILITIES					8,977,500.00	9,885,000.00
OWNER'S EQUITY						
Paid in Capital					6,585,500.00	6,039,300.00
Retained Equity						
Other						
Current Period Profit or Loss						
TOTAL OWNER'S EQUITY						
TOTAL LIABILITIES AND EQUITY						
WORKING CAPITAL						
CURRENT RATIO						
DEBT TO EQUITY RATIO EQUITY TO TOTAL ASSETS						

HISTORICAL INCOME STATEMENT	CURRENT YEAR (A)	A-1 YEAR	A-2 YEAR	A-3 YEAR	A-4 YEAR	A-5 YEAR
METER NUMBER						
Existing Number of Taps						
New Taps Per Year						
Total Meters at Year End						
METER REVENUE						
Fees Per Meter						
Cost Per Meter						
Operating Revenue Per Meter						
GROSS WATER REVENUE						
Fees						
Other						
Gross Income						
OPERATING EXPENSES						
General & Administrative						
Interest						
Other						
NET INCOME						

HISTORICAL EXPENSE DETAIL	CURRENT YEAR (A)	A-1 YEAR	A-2 YEAR	A-3 YEAR	A-4 YEAR	A-5 YEAR
GENERAL/ADMINISTRATIVE EXPENSES						
Salaries						
Office Expense						
Computer Expense						
Auto Expense						
Insurance Expense						
Telephone Expense						
Utilities Expense						
Depreciation Expense						
Property Taxes						
Professional Fees						
Other						
Total						
% Increase Per Year						
OPERATIONAL EXPENSES						
Salaries						
Auto Expense						
Utilities Expense						
Depreciation Expense						
Repair & Maintenance						
Supplies						
Other						
Total						
% Increase Per Year						
ASSUMPTIONS						
Interest Rate/Terms						
Utility Cost/gal.						
Depreciation Schedule						
Other						

Part E – Projected Information

PROJECTED BALANCE SHEETS

	START UP	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
CURRENT ASSETS						
Cash	N/A					
Accounts Receivable						
Inventories						
Income Tax Receivable						
Other						
Total						
FIXED ASSETS						
Land						
Collection/Distribution System						
Buildings						
Equipment						
Other						
Less: Accum. Depreciation or Reserves						
Total						
TOTAL ASSETS						
CURRENT LIABILITIES						
Accounts Payable						
Notes Payable, Current						
Accrued Expenses						
Other						
Total						
LONGTERM LIABILITIES						
Notes Payable, Long-term						
Other						
TOTAL LIABILITIES						
OWNER'S EQUITY						
Paid in Capital						
Retained Equity						
Other						
Current Period Profit or Loss						
TOTAL OWNER'S EQUITY						
TOTAL LIABILITIES AND EQUITY						
WORKING CAPITAL						
CURRENT RATIO						
DEBT TO EQUITY RATIO						
EQUITY TO TOTAL ASSETS						

PROJECTED INCOME STATEMENT

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTALS
METER NUMBER						
Existing Number of Taps						
New Taps Per Year						
Total Meters at Year End						
METER REVENUE						
Fees Per Meter						
Cost Per Meter						
Operating Revenue Per Meter						
GROSS WATER REVENUE						
Fees						
Other						
Gross Income						
OPERATING EXPENSES						
General & Administrative						
Interest						
Other						
NET INCOME						

PROJECTED EXPENSE DETAIL

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTALS
GENERAL/ADMINISTRATIVE EXPENSES						
Salaries						
Office Expense						
Computer Expense						
Auto Expense						
Insurance Expense						
Telephone Expense						
Utilities Expense						
Depreciation Expense						
Property Taxes						
Professional Fees						
Other						
Total						
% Increase Per Year	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
OPERATIONAL EXPENSES						
Salaries						
Auto Expense						
Utilities Expense						
Depreciation Expense						
Repair & Maintenance						
Supplies						
Other						
Total						
% Increase Per Year	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
ASSUMPTIONS						
Interest Rate/Terms						
Utility Cost/gal.						
Depreciation Schedule						
Other						

PROJECTED SOURCES AND USES OF CASH STATEMENTS

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTALS
SOURCES OF CASH						
Net Income						
Depreciation (If Funded)						
Loan Proceeds						
Other						
Total Sources						
USES OF CASH						
Net Loss						
Principle Portion of Pmts.						
Fixed Asset Purchase						
Reserve						
Other						
Total Uses						
NET CASH FLOW						
DEBT SERVICE COVERAGE						
Cash Available for Debt						
SERVICE (CADS)						
Net Income (Loss)						
Depreciation, or Reserve Interest						
Total						
REQUIRED DEBT SERVICE (RDS)						
Principle Plus Interest						
DEBT SERVICE COVERAGE RATIO						
CADS Divided by RDS						

Part F – TCEQ Public Water or Sewer System Information

☞ Please answer questions 17 through 22 on a different sheet for each physically Distinct system being transferred or acquired.

17. A. For Water Systems. TCEQ Public Water System Identification Number:

1 9 8 0 0 0 6

Date of last inspection: 04/09/2014

B. For Wastewater Systems:

-TCEQ Discharge Permit Number:

W Q

-Name of Permittee:

-Date of application to transfer Discharge Permit submitted:

-Date of application to transfer Discharge Permit approved by TCEQ:

18. A. Are any improvements required to meet TCEQ or PUC standards?

☐

Yes

☒

No. If yes, please explain:

B. Is there a moratorium on new connections?

☐

Yes

☒

No. If yes, please explain:

C. Provide details of each required major capital improvement to correct the deficiencies and meet the TCEQ or PUC standards (attach additional sheets if necessary):

Description of the Required Improvement	Schedule to Complete	Estimated Cost
N/A		

19. Does the system being transferred operate within the city limits of a municipality or within district boundaries? ☐ Yes ☒ No

If yes, indicate the number of customers within the city limits or district boundaries:

Water

Sewer

☞ Attach copy of franchise agreement or consent letter from the city or district.

20. Do you currently purchase water or sewer treatment capacity from another source? ☐ Yes ☒ No
☐ Water ☐ Sewer Purchased on a ☐ Regular ☐ Seasonal ☐ Emergency Basis

• Source: % of total supply: 0.00%

21. List the number of existing connections to be effected by this transaction.

Water			Sewer	
	-Non Metered		-2"meter	
192	-5/8" or 3/4" meter		-3" meter	
	-1" meter		-4" meter	
	-1 1/2" meter		-Other	
Total Water Connections:		500	Total Sewer Connections	

20. Has the system reached 85% of its capacity based on TCEQ's minimum requirements? ☐ Yes ☒ No
 If yes, please explain what steps are being taken to address the capacity issues:

23. List the name, class, and license number of the operator(s) that will be responsible for the system:

Name	Class	License#
Raymond Sifuentes SR	C	WG0012557
Terry W Thomas	B	WW0039239
Terry W Thomas	C	WG0012978
James Owens		WG0003565
Terry W Thomas	Customer Srvc. Insp./Backflow Tester	CI0008014, BP0016627

24. Attach the following maps with each copy of the application:

- One small scale map clearly showing affected service area with enough detail to accurately locate the area if the application is for the transfer of all or a portion of a CCN.
- One large scale map showing the proposed service area boundaries being sold, transferred, or merged and, if available, the existing and proposed facilities. Color coding should be used to differentiate existing from proposed facilities. Facilities and service area boundaries should be shown with such exactness that they can be located on the ground. If transferring area not currently in a CCN or a portion of an existing CCN area please attach the following hard copy maps with each copy of the application:
 - A general location map delineating the proposed service area with enough detail to accurately locate the proposed area within the county.
 - A map showing only the proposed area by:
 - metes and bounds survey certified by a licensed state or registered professional land surveyor; or
 - projectable digital data with metadata (proposed areas should be in a single record and clearly labeled, data disk should be included); or
 - following verifiable natural and man-made landmarks, or
 - a copy of recorded plat map with metes and bounds.
 - A written description of the proposed service area.

Part G – Oaths and Notices


OATH FOR SELLER OR FORMER SERVICE PROVIDER

STATE OF Texas

COUNTY OF Robertson

I, Ronnie Vaughn, being duly sworn, file this application for sale, lease, rental or merger or consolidation as Bethany/Hearne WSC (indicate relationship to applicant) that is, owner, member of partnership, title as officer of corporation, or other authorized representative of applicant); that, in such capacity, I am qualified and authorized to file and verify such application, am personally familiar with the documents filed with this application, and have complied with all the requirements contained in the application; and, that all such statements made and matters set forth therein with respect to applicant are true and correct. Statements about other parties are made on information and belief. I further state that the application is made in good faith and that this application does not duplicate any filing presently before the Commission.

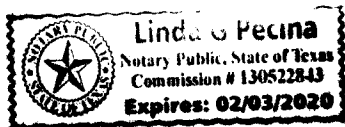
I further state that I have provided to the purchaser or transferee a written disclosure statement about any contributed property as required under Section 13.301(i) and copies of any outstanding Orders of the Texas Commission on Environmental Quality, the Public Utility Commission of Texas, or Attorney General and have also complied with the notice requirements in Section 13.301(k) of the Texas Water Code.



AFFIANT
(Utility's Authorized Representative)

If the Affiant to this form is any person other than the sole owner, partner, officer of the Applicant, or its attorney, a properly verified Power of Attorney must be enclosed.

SUBSCRIBED AND SWORN TO BEFORE ME, a Notary Public in and for the State of Texas, this day 13th of MAY, 20 16.

SEAL




NOTARY PUBLIC IN AND FOR THE
STATE OF TEXAS
LINDA G. PECINA
PRINT OR TYPE NAME OF NOTARY
MY COMMISSION EXPIRES 2/3/20

One copy of this page must be submitted for each utility involved in this transaction.

OATH FOR PURCHASER OR ACQUIRING ENTITY

STATE OF Texas

COUNTY OF Roberston

I, Pee Wee Drake, being duly sworn, file this application for

sale, lease, rental or merger or consolidation as City of Hearne
(indicate relationship to applicant) that is, owner, member of partnership, title as officer of corporation, or other authorized representative of applicant); that, in such capacity, I am qualified and authorized to file and verify such application, am personally familiar with the documents filed with this application, and have complied with all the requirements contained in the application; and, that all such statements made and matters set forth therein with respect to applicant are true and correct. Statements about other parties are made on information and belief. I further state that the application is made in good faith and that this application does not duplicate any filing presently before the Commission.

I am also authorized and do agree to be bound by and comply with any outstanding orders of the Texas Commission on Environmental Quality, the Public Utility Commission of Texas or the Attorney General which have been issued to the system or facilities being acquired and recognize that I will be subject to administrative penalties or other enforcement actions if I do not comply.



AFFIANT

(Utility's Authorized Representative)

If the Affiant to this form is any person other than the sole owner, partner, officer of the Applicant, or its attorney, a properly verified Power of Attorney must be enclosed.

Applicant represents that all other parties to this transaction have been furnished copies of this completed application.

SUBSCRIBED AND SWORN TO BEFORE ME, a Notary Public in and for the State of Texas, this
day 5th of May, 20 16.

SEAL



NOTARY PUBLIC IN AND FOR THE
STATE OF TEXAS



Linda G. Pecina
PRINT OR TYPE NAME OF NOTARY

MY COMMISSION EXPIRES

02/03/2020

One copy of this page must be submitted for each utility involved in this transaction.

Bethany Hearne Water Supply Company
(Seller's or Transferor's Name)

NECESSITY (CCN) NO 10330 TO City of Hearne
(Purchaser's or Transferee's Name)

To: _____ Date Notice Mailed _____, 20 _____
(Name of Customer, Neighboring System or City)

City _____ State _____ Zip _____

has submitted an application with the Public Utility Commission of Texas to sell facilities and transfer water or sewer (please select) CCN No. 10330 in Robertson [County Name]

City of Hearne	209 Cedar St.	Hearne, Texas, 77859
Purchasers or Transferee's Name	Address	City/State/Zip Code

The sale is scheduled to take place as approved by the Commission (V.T.C.A., Water Code §13.301). The transaction and the transfer of the CCN include the following subdivision(s):

W. Henry Prairie Rd. ;on the east by FM 2549
;on the south by Black Jack Rd. ;and on the west by US 79/US 190

Response Category	Very little	Some	A lot	All	None
None	0	0	0	0	100
Very little	100	0	0	0	0
Some	0	100	0	0	0
A lot	0	0	100	0	0
All	0	0	0	100	0

- (1) state your name, mailing address and daytime telephone number;
- (2) state the applicant's name, application number or another recognizable reference to this application;
- (3) include the statement "I/we request a public hearing";
- (4) write a brief description of how you, the persons you represent, or the public interest would be adversely affected by the proposed transaction and transfer of the CCN; and
- (5) state your proposed adjustment to the application or CCN which would satisfy your concerns and cause you to withdraw your request for a hearing.

Only those persons who submit a written request to be notified of a hearing will receive notice if a hearing is scheduled. The Commission will issue the CCN requested in the referenced application unless a hearing is scheduled to consider the transaction. If no protests or requests for hearing are filed during the comment period, the Commission may issue the CCN 30 days after publication of this notice.

Persons who wish to protest or request a hearing on this application should write the:

Filing Clerk
Public Utility Commission of Texas
1701 North Congress Avenue
P.O. Box 13326
Austin, Texas 78711-3326

**Se desea informacion en Espanol, puede llamar al
1-888-782-8477**

Pee Wee Drake

Utility Representative

City of Hearne

Utility Name

Attachments

Table of Contents

A-Financials

- a. 2015
- b. 2014
- c. 2013
- d. 2012
- e. 2011

B- Regulatory Agency Correspondence

C- Mapping

Attachment A - Financials

City of Hearne, Texas
Financial Statements with
Report of Independent Auditors
For the Fiscal Year Ended
September 30, 2015

City of Hearne, Texas
For the Year Ended September 30, 2015

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For the Year Ended September 30, 2015

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council
City of Hearne, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hearne, Texas, (the "City") as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hearne, Texas, as of September 30, 2015, and the respective changes in financial position, where applicable, cash flows thereof, and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 16 to the financial statements, in 2015 the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 9 and the schedule of changes in net pension liability and related ratios-Texas Municipal Retirement System, schedule of contributions-Texas Municipal Retirement System, schedule of the city's proportionate share of the net pension liability-Texas Emergency Services Retirement System, and schedule of contributions-Texas Emergency Services Retirement System on pages 47 through 50, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hearne, Texas' basic financial statements. The combining and individual non-major fund financial statements and budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and budgetary comparison schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and budgetary comparison schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 8, 2016, on our consideration of the City of Hearne, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

College Station, Texas
March 8, 2016

City of Hearne, Texas
Statement of Net Position
September 30, 2015

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Hearne Economic Development Corporation	Hearne Infrastructure/ Improvement Corporation
Assets					
Cash and equivalents	\$ 52,628	\$ 540,868	\$ 593,496	\$ -	\$ -
Receivables (net of allowance for uncollectibles)					
Taxes	417,524	-	417,524	50,444	50,444
Accounts	15,781	1,416,485	1,432,266	-	315
Grant	-	407,730	407,730	-	-
Internal balances	1,040,788	(1,040,788)	-	-	-
Due from primary government	-	-	-	456,352	-
Inventory	-	130,958	130,958	-	-
Other assets	21,234	25,113	46,947	-	-
Restricted assets:					
Cash and equivalents	224,531	16,138	840,669	251,598	732,719
Investments	-	-	-	142,294	-
Capital assets					
Non-depreciable	3,519,402	996,614	1,389,696	-	-
Depreciable, net	3,519,402	10,989,841	14,509,243	-	-
Total assets	5,684,970	14,083,559	19,768,529	900,688	783,478
Deferred outflows of resources					
Loss on bond refunding	-	177,819	177,819	-	-
Deferred amounts related to pensions	200,123	94,190	294,313	-	-
Total deferred outflows of resources	200,123	272,009	472,132	-	-
Liabilities					
Accounts payable	166,684	1,010,206	1,176,890	20	500
Salaries payable	61,586	34,795	96,381	-	-
State tax payable	-	23,800	23,800	-	-
Other accrued liabilities	20,343	39,253	59,596	-	-
Due to component unit	-	456,352	456,352	-	-
Deposits	2,140	356,239	358,379	-	-
Long-term liabilities:					
Due within one year					
Compensated absences	2,363	-	2,363	-	-
Capital lease payable	32,610	164,155	196,765	-	-
Notes payable	68,202	238,948	307,150	-	-
Bonds payable	-	300,000	300,000	-	-
Due in more than one year					
Compensated absences	126,585	72,902	199,487	-	-
Capital lease payable	381,304	1,383,827	1,765,131	-	-
Bonds payable	-	4,480,000	4,480,000	-	-
Net pension liability - TMRS	1,400,077	690,380	2,090,457	-	-
Net pension liability - TESRS	60,148	-	60,148	-	-
Total liabilities	2,322,042	9,250,857	11,572,899	20	500
Deferred inflows of resources					
Deferred amounts related to pensions	45,579	15,001	60,580	-	-
Total deferred inflows of resources	45,579	15,001	60,580	-	-
Net Position					
Net investment in capital assets	3,430,368	5,419,525	8,849,893	-	-
Restricted for					
Court security	92,459	-	92,459	-	-
Court technology	24,695	-	24,695	-	-
Child safety fund	32,479	-	32,479	-	-
Tourism	120,678	-	120,678	-	-
Police department	5,752	-	5,752	-	-
Economic development	-	-	-	900,668	782,978
Unrestricted	(188,959)	(329,815)	(518,774)	-	-
Total net position	\$ 3,517,472	\$ 5,089,710	\$ 8,607,182	\$ 900,668	\$ 782,978

The notes to the financial statements are an integral part of this statement.

City of Hearne, Texas
Statement of Activities
For the Year Ended September 30, 2015

Program Activities	Program Revenues				Net (Expenses) Revenues and Changes in Net Position			
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Units	
					Governmental Activities	Business-type Activities	Hearne Economic Development Corporation	Infrastructure/Improvement Corporation
Primary government								
Governmental activities:								
General government	\$ 764,498	\$ 9,189	\$ 11,326	\$ -	\$ (743,983)	\$ -	\$ -	\$ -
Public safety	1,398,163	324,615	10,292	-	(1,063,256)	-	-	-
Highways and streets	424,276	-	-	85,000	(339,276)	-	-	-
Health and welfare	74,274	-	2,000	-	(72,274)	-	-	-
Culture and recreation	686,245	44,737	6,000	-	(635,508)	-	-	-
Interest on long-term debt	21,182	-	-	-	(21,182)	-	-	-
Total governmental activities	3,368,638	378,541	29,618	85,000	(2,875,479)	-	-	-
Business-type activities:								
Water	586,807	1,139,820	-	-	-	553,013	-	-
Electric	6,165,915	5,863,379	-	-	-	(302,536)	-	-
Sewer	766,517	686,048	-	795,219	-	714,750	-	-
Sanitation	678,943	612,335	-	-	-	(66,578)	-	-
Municipal airport	172,818	96,890	-	-	-	(75,928)	-	-
Total business-type activities	8,371,000	8,398,502	-	795,219	-	822,721	-	-
Total primary government	11,739,638	8,777,043	29,618	880,219	(2,875,479)	822,721	-	-
Component units:								
Hearne Economic Development Corporation	194,855	-	-	-	-	-	(194,855)	-
Hearne Infrastructure/Improvement Corporation	137,958	-	-	-	-	-	-	(137,958)
	\$ 332,813	\$ -	\$ -	\$ -			(194,855)	(137,958)
General revenues								
Taxes:								
Property taxes					1,459,126	-	-	-
Sales taxes					561,325	-	279,300	279,300
Gross receipts					93,693	-	-	-
Hotel/motel occupancy					160,917	-	-	-
Rentals					-	6,804	-	-
Investment earnings					350	1,917	1,162	801
Gain (loss) on disposal of capital assets					-	2,269	-	-
Miscellaneous					45,914	229,138	-	-
Contributions between primary government and component unit					91,762	75,000	(83,381)	(83,381)
Transfers					754,344	(754,344)	197,081	196,720
Total general revenues and transfers					3,167,431	(439,216)	2,226	58,762
Change in net position					291,952	383,505	898,442	724,216
Net position at beginning of the year, as previously reported					4,608,633	5,331,722	-	-
Restatement of net position, see Note 16					(1,383,113)	(625,517)	-	-
Net position at beginning of the year, as restated					3,225,520	4,706,205	898,442	724,216
Net position at end of year					\$ 3,517,472	\$ 5,089,710	\$ 900,668	\$ 782,978

The notes to the financial statements are an integral part of this statement.

City of Hearne, Texas
Balance Sheet
Governmental Funds
September 30, 2015

	General	Total Nonmajor Funds	Total Governmental Funds
Assets			
Cash and equivalents	\$ 52,628	\$ -	\$ 52,628
Receivables:			
Taxes	404,814	12,710	417,524
Accounts	15,781	-	15,781
Due from other funds	977,431	63,692	1,041,123
Other assets	21,234	-	21,234
Restricted assets:			
Cash	119,991	104,540	224,531
Total assets	<u>\$ 1,591,879</u>	<u>\$ 180,942</u>	<u>\$ 1,772,821</u>
Liabilities			
Accounts payable	\$ 112,507	\$ 54,177	\$ 166,684
Salaries payable	61,586	-	61,586
Accrued liabilities	20,343	-	20,343
Deposits	2,140	-	2,140
Due to other funds	-	335	335
Total liabilities	<u>196,576</u>	<u>54,512</u>	<u>251,088</u>
Deferred Inflows of Resources			
Unavailable revenue-property taxes	<u>269,925</u>	<u>-</u>	<u>269,925</u>
Fund Balances			
Nonspendable			
Prepaid expenses	21,235	-	21,235
Restricted for:			
Debt service	1,836	-	1,836
Court security	92,459	-	92,459
Court technology	24,695	-	24,695
Fire truck	1,001	-	1,001
Child safety fund	32,479	-	32,479
Police	-	5,752	5,752
Tourism	-	120,678	120,678
Unassigned reported in:			
General fund	<u>951,673</u>	<u>-</u>	<u>951,673</u>
Total fund balances	<u>1,125,378</u>	<u>126,430</u>	<u>1,251,808</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,591,879</u>	<u>\$ 180,942</u>	<u>\$ 1,772,821</u>

The notes to the financial statements are an integral part of this statement.

City of Hearne, Texas
Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds
September 30, 2015

Fund balances - total governmental funds \$ 1,251,808

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Governmental capital assets	9,463,782	
Less accumulated depreciation	<u>(5,551,298)</u>	3,912,484

Certain tax receivables are not available to pay for current period expenditures and therefore are reported as unavailable in the government funds 269,925

Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet.

Compensated absences	(128,948)	
Capital lease payable	(413,914)	
Notes payable	(68,202)	
Net pension liability - TMRS	(1,400,077)	
Net pension liability - TESRS	<u>(60,148)</u>	(2,071,289)

Certain deferred inflows and outflows of resources are not reported in the governmental funds.

Deferred outflows related to pensions	200,123	
Deferred inflows related to pensions	<u>(45,579)</u>	154,544

Net position of governmental activities \$ 3,517,472

The notes to the financial statements are an integral part of this statement.

City of Hearne, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2015

	General	Total Nonmajor Funds	Total Governmental Funds
Revenues:			
Taxes:			
Property	\$ 1,458,060	\$ -	\$ 1,458,060
Sales	561,325	-	561,325
Gross receipts	93,693	-	93,693
Hotel/motel occupancy	-	160,917	160,917
Intergovernmental	91,000	4,630	95,630
Licenses and permits	9,189	-	9,189
Property rentals	44,737	-	44,737
Fines	324,615	-	324,615
Investment income	221	129	350
Private contributions	11,326	-	11,326
Miscellaneous	47,953	-	47,953
Total revenues	<u>2,642,119</u>	<u>165,676</u>	<u>2,807,795</u>
Expenditures:			
Current:			
General government	754,320	-	754,320
Public safety	1,206,287	-	1,206,287
Highways and streets	313,789	-	313,789
Health and welfare	75,077	-	75,077
Culture and recreation	529,289	82,829	612,118
Capital outlay	242,053	-	242,053
Debt service:			
Principal	82,273	-	82,273
Interest and fiscal charges	21,182	-	21,182
Total expenditures	<u>3,224,270</u>	<u>82,829</u>	<u>3,307,099</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(582,151)</u>	<u>82,847</u>	<u>(499,304)</u>
Other financing sources (uses):			
Contributions from component unit	91,762	-	91,762
Transfers in	1,260,816	-	1,260,816
Transfers out	(506,472)	-	(506,472)
Total other financing sources (uses)	<u>846,106</u>	<u>-</u>	<u>846,106</u>
Net change in fund balances	263,955	82,847	346,802
Fund balances at beginning of year, as previously reported	905,804	43,583	949,387
Restatement of fund balance, see Note 16	(44,381)	-	(44,381)
Fund balances at beginning of year, as restated	<u>861,423</u>	<u>43,583</u>	<u>905,006</u>
Fund balances at end of year	<u>\$ 1,125,378</u>	<u>\$ 126,430</u>	<u>\$ 1,251,808</u>

The notes to the financial statements are an integral part of this statement.

City of Hearne, Texas
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2015

Net change in fund balances - total governmental funds \$ 346,802

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of these assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	\$ 242,053	
Depreciation of capital assets	<u>(423,211)</u>	(181,158)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds and are instead deferred. This amount represents the net change in unavailable tax revenue. 1,066

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds and are instead deferred. 7,662

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items. 80,234

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not included as expenditures in governmental funds.

Compensated absences	\$ 11,958	
Pension costs	<u>25,388</u>	<u>37,346</u>

Change in net position of governmental activities \$ 291,952

The notes to the financial statements are an integral part of this statement.

City of Hearne, Texas
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues				
Taxes				
Property	\$ 1,505,042	\$ 1,505,042	\$ 1,458,060	\$ (46,982)
Sales	431,750	431,750	561,325	129,575
Gross receipts	82,000	82,000	93,693	11,693
Licenses and permits	18,000	18,000	9,189	(8,811)
Property rentals	35,000	35,000	44,737	9,737
Fines	295,450	295,450	324,615	29,165
Intergovernmental	-	-	91,000	91,000
Investment income	150	150	221	71
Private contributions	30,000	115,000	11,326	(103,674)
Miscellaneous	10,600	10,600	47,953	37,353
Total revenues	2,407,992	2,492,992	2,642,119	149,127
Expenditures				
Current				
General government				
Legislative	57,272	87,844	84,268	(3,576)
Executive	231,337	271,724	271,266	(458)
Finance	276,953	320,912	278,732	(42,180)
Court	129,716	129,716	120,054	(9,662)
Total general government	695,278	810,196	754,320	(55,876)
Public safety				
Police	1,096,372	1,129,367	1,109,930	(19,437)
Fire	97,782	102,781	96,357	(6,424)
Total public safety	1,194,154	1,232,148	1,206,287	(25,861)
Highways and streets	373,493	410,615	313,789	(96,826)
Health and welfare				
Code enforcement	8,947	23,133	21,105	(2,028)
Animal control	59,114	59,990	53,972	(6,018)
Total health and welfare	68,061	83,123	75,077	(8,046)
Culture and recreation				
Library	160,092	173,993	165,906	(8,087)
Parks and recreation	444,123	438,787	363,383	(75,404)
Total culture and recreation	604,215	612,780	529,289	(83,491)
Capital outlay	353,000	342,108	242,053	(100,055)
Debt service:				
Principal	63,998	82,585	82,273	(312)
Interest	19,766	21,185	21,182	(3)
Total debt service	83,764	103,770	103,455	(315)
Total expenditures	3,371,965	3,594,740	3,224,270	(370,470)
Excess (deficiency) of revenues over (under) expenditures	(963,973)	(1,101,748)	(582,151)	519,597
Other financing sources (uses)				
Proceeds from long term debt	200,000	347,405	-	(347,405)
Contributions from component unit	-	-	91,762	91,762
Transfers in	1,260,816	1,260,816	1,260,816	-
Transfers out	(496,843)	(506,473)	(506,472)	1
Total other financing sources (uses)	963,973	1,101,748	846,106	(255,642)
Net change in fund balances	-	-	263,955	263,955
Fund balances at beginning of year, as previously reported	905,804	905,804	905,804	-
Restatement of fund balance, see Note 16	(44,381)	(44,381)	(44,381)	-
Fund balances at beginning of year, as restated	861,423	861,423	861,423	-
Fund balances at end of year	\$ 861,423	\$ 861,423	\$ 1,125,378	\$ 263,955

The notes to the financial statements are an integral part of this statement

City of Hearne, Texas
Statement of Net Position
Proprietary Funds
September 30, 2015

	Enterprise Fund	Nonmajor Fund Municipal Airport Fund	Total
Assets			
Current assets:			
Cash and equivalents	\$ 540,868	\$ -	\$ 540,868
Accounts receivable (net of allowance for uncollectibles)	1,415,965	520	1,416,485
Grants receivable	407,730	-	407,730
Inventory	108,638	22,320	130,958
Due from other funds	325,493	29,691	355,184
Other assets	20,244	5,469	25,713
Restricted cash	616,138	-	616,138
Total current assets	3,435,076	58,000	3,493,076
Capital assets:			
Land	61,634	-	61,634
Buildings and other improvements	778,946	1,497,448	2,276,394
Distribution and collection systems	22,968,172	-	22,968,172
Equipment	834,834	33,276	868,110
Construction in progress	934,980	-	934,980
	25,578,566	1,530,724	27,109,290
Less accumulated depreciation	(14,660,592)	(462,243)	(15,122,835)
Capital assets, net of accumulated depreciation	10,917,974	1,068,481	11,986,455
Total non-current assets	10,917,974	1,068,481	11,986,455
Total assets	14,353,050	1,126,481	15,479,531
Deferred outflows of resources			
Loss on bond refunding	177,819	-	177,819
Deferred amounts related to pensions	94,190	-	94,190
Total deferred outflows of resources	272,009	-	272,009
Liabilities			
Current liabilities			
Accounts payable	996,233	13,973	1,010,206
Salaries payable	34,795	-	34,795
Sales tax payable	23,800	-	23,800
Other accrued liabilities	39,253	-	39,253
Due to other funds	1,395,972	-	1,395,972
Due to component units	456,352	-	456,352
Customer deposits payable	356,239	-	356,239
Long-term debt, current	703,103	-	703,103
Total current liabilities	4,005,747	13,973	4,019,720
Long-term liabilities:			
Liability for compensated absences, long-term	72,902	-	72,902
Long-term debt, net	5,863,827	-	5,863,827
Net pension liability	690,380	-	690,380
Total long-term liabilities	6,627,109	-	6,627,109
Total liabilities	10,632,856	13,973	10,646,829
Deferred inflows of resources			
Deferred amounts related to pensions	15,001	-	15,001
Total deferred inflows of resources	15,001	-	15,001
Net Position			
Net investment in capital assets	4,351,044	1,068,481	5,419,525
Unrestricted	(373,842)	44,027	(329,815)
Total net position	\$ 3,977,202	\$ 1,112,508	\$ 5,089,710

The notes to the financial statements are an integral part of this statement.

City of Hearne, Texas
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended September 30, 2015

	Enterprise Fund	Nonmajor Fund Municipal Airport Fund	Total
Operating revenues:			
Charges for sales and services:			
Water sales	\$ 1,139,820	\$ -	\$ 1,139,820
Electric sales	5,863,379	-	5,863,379
Sewer charges	685,048	-	685,048
Sanitation	612,365	-	612,365
Tap fees	1,000	-	1,000
Rental fees	6,804	30,510	37,314
Penalties	115,153	-	115,153
Miscellaneous revenue	113,985	66,380	180,365
Total operating revenues	<u>8,537,554</u>	<u>96,890</u>	<u>8,634,444</u>
Operating expenses:			
Wholesale utilities	5,104,581	-	5,104,581
Water department	397,157	-	397,157
Electric department	435,947	-	435,947
Sewer department	356,041	-	356,041
Sanitation department	51,776	-	51,776
Administrative and billing	831,725	-	831,725
Airport	-	96,879	96,879
Depreciation and amortization	690,255	75,939	766,194
Total operating expenses	<u>7,867,482</u>	<u>172,818</u>	<u>8,040,300</u>
Operating income (loss)	<u>670,072</u>	<u>(75,928)</u>	<u>594,144</u>
Nonoperating revenues (expense):			
Intergovernmental	795,219	-	795,219
Contributions from component unit	75,000	-	75,000
Investment income	1,917	-	1,917
Gain on disposal of capital assets	2,269	-	2,269
Interest expense	(330,700)	-	(330,700)
Total nonoperating revenues (expense)	<u>543,705</u>	<u>-</u>	<u>543,705</u>
Income (loss) before transfers	1,213,777	(75,928)	1,137,849
Transfers in	506,472	-	506,472
Transfers out	(1,260,816)	-	(1,260,816)
Total other financing sources (uses)	<u>(754,344)</u>	<u>-</u>	<u>(754,344)</u>
Change in net position	459,433	(75,928)	383,505
Net position, beginning of year, as previously reported	4,143,286	1,188,436	5,331,722
Restatement of net position, see Note 16	(625,517)	-	(625,517)
Net position, beginning of year, as restated	<u>3,517,769</u>	<u>1,188,436</u>	<u>4,706,205</u>
Net position, end of year	<u>\$ 3,977,202</u>	<u>\$ 1,112,508</u>	<u>\$ 5,089,710</u>

The notes to the financial statements are an integral part of this statement

City of Hearne, Texas
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2015

	Enterprise Fund	Nonmajor Fund Municipal Airport Fund	Total
Cash flows from operating activities:			
Cash received from customers	\$ 8,498,483	\$ 96,370	\$ 8,594,853
Cash payments to suppliers for goods and services	(4,290,470)	(104,892)	(4,395,362)
Cash payments to employees for services	(2,325,760)	-	(2,325,760)
Net cash provided by (used in) operating activities	1,882,253	(8,522)	1,873,731
Cash flows from non-capital financing activities:			
Decrease in bank overdraft	(81,062)	-	(81,062)
Transfers in	506,472	-	506,472
Transfers out	(1,260,816)	-	(1,260,816)
Net cash provided by (used in) non-capital financing activities	(835,406)	-	(835,406)
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(1,251,963)	(3,991)	(1,255,954)
Proceeds from disposal of capital assets	6,516	-	6,516
Capital grants	420,889	12,513	433,402
Interest paid	(332,679)	-	(332,679)
Principal payments	(555,944)	-	(555,944)
Proceeds of long term debt issuance	148,604	-	148,604
Net cash provided by (used in) capital and related financing activities	(1,489,577)	8,522	(1,481,055)
Cash flows from investing activities:			
Interest on cash and investments	1,917	-	1,917
Net increase (decrease) in cash and equivalents	(440,813)	-	(440,813)
Cash and equivalents, beginning of year	1,597,819	-	1,597,819
Cash and equivalents, end of year	\$ 1,157,006	\$ -	\$ 1,157,006
Reconciliation of cash and equivalents:			
Unrestricted cash and equivalents	\$ 540,868	\$ -	\$ 540,868
Restricted cash and investments	616,138	-	616,138
Total cash and equivalents	\$ 1,157,006	\$ -	\$ 1,157,006

(continued)

The notes to the financial statements are an integral part of this statement.

City of Hearne, Texas
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2015

	Enterprise Fund	Nonmajor Fund Municipal Airport Fund	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 670,072	\$ (75,928)	\$ 594,144
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	690,255	75,939	766,194
Bad debt expense	47,238	-	47,238
Increase (decrease) in cash resulting from changes in assets and liabilities:			
Accounts receivable	(98,488)	(520)	(99,008)
Inventory	15,043	4,045	19,088
Due from other funds	(230,758)	(23,234)	(253,992)
Other assets	10,104	-	10,104
Deferred outflows related to pensions	(27,812)	-	(27,812)
Accounts payable	417,571	11,176	428,747
Salaries payable	(6,990)	-	(6,990)
Sales tax payable	(549)	-	(549)
Accrued liabilities	162	-	162
Due to other funds	506,764	-	506,764
Due to component units	(143,991)	-	(143,991)
Customer deposits	12,179	-	12,179
Liability for compensated absences	7,966	-	7,966
Net pension liability	(1,514)	-	(1,514)
Deferred inflows related to pensions	15,001	-	15,001
Net cash provided by (used in) operating activities	<u>\$ 1,882,253</u>	<u>\$ (8,522)</u>	<u>\$ 1,873,731</u>

The notes to the financial statements are an integral part of this statement.

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2015

Note 1. Summary of Significant Accounting Policies

The financial statements of the City of Hearne, Texas (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's more significant accounting policies are described below.

A. Reporting Entity

The City is a home-rule city governed by an elected mayor and a five-member council. The City operates under a Council-Manager form of government, established by City charter. As required by generally accepted accounting principles, these financial statements present the City (the primary government) and its component units, entities for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Discretely Presented Component Units

The Hearne Economic Development Corporation is a non-profit corporation created under Section 4A of the Development Corporation Act of 1979. The Corporation receives one-half of one percent of local sales tax collected, which is used to promote economic development within the City. The Corporation is governed by a Board of Directors that is appointed by the City Council.

The Hearne Infrastructure/Improvement Corporation is a non-profit corporation created under Section 4B of the Development Corporation Act of 1979. The Corporation receives one-half of one percent of local sales tax collected, which is used to promote economic development within the City. The Corporation is governed by a Board of Directors that is appointed by the City Council.

B. Basis of Presentation

Government-wide financial statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. The effect of interfund activity, other than interfund services provided and used within the governmental and business-type activities, has been removed from these statements. The statements distinguish between governmental and business-type activities. Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (General Government, Public Safety, etc.) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2015

purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; grants and contributions that are restricted to meeting the operational requirements of a particular function or segment; and grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Fund financial statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the city and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Other Governmental Funds

Other Governmental Funds is a summation of all of the non-major governmental funds.

Proprietary Funds

Enterprise Fund

This fund is used to account for the operations of the City's utility systems, which include water, electric, sewer, and sanitation services.

Municipal Airport Enterprise Fund

This fund is a non-major enterprise fund, used to account for the operations of the City's municipal airport.

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2015

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b below.

In the fund financial statements, the *current financial resources* measurement focus or the *economic resources* measurement focus is used as appropriate:

- a. All governmental funds utilize a *current financial resources* measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary funds utilize an *economic resources* measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when *measurable and available*. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property, sales, and gross receipt tax revenues of governmental funds are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines, contributions and miscellaneous revenues are recorded when received in cash, as these revenues are not measurable and available until cash is received. Investment income is recorded as earned since it is measurable and available. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2015

The proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Operating revenues and expenses for proprietary funds include activities related to providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. Revenues and expenses that do not meet this definition are reported as non-operating revenues and expenses.

D. Budgets

Annual appropriated budgets are adopted for the general fund, special revenue funds, except Police Special fund, and proprietary funds. The budgets for all funds are prepared and adopted on a basis consistent with generally accepted accounting principles, which is the same basis of accounting used for financial reporting in these financial statements. Budgets are adopted by passage of a budget ordinance. All annual budget appropriations lapse at fiscal year-end.

Encumbrance accounting is a system under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation. Encumbrances are reported as reservations of fund balances since they do not constitute expenditures or liabilities. The City does not employ encumbrance accounting as it feels its current system is adequate to assure effective budgetary control and accountability and to facilitate effective cash planning and control.

E. Cash and Investments

For the purpose of the Statement of Net Position and the Statement of Cash Flows, "Cash and cash equivalents" consists of cash on hand, amounts in demand deposit accounts and interest-bearing checking accounts, as well as certificates of deposits and investments with maturities of three months or less.

State statutes authorize the City to invest in time deposits of its designated depositories, U.S. Government Securities, and local government investment pools. Investments are carried at fair value. Interest income and changes in fair value are reported as investment income.

Cash equivalents include investments in the local government investment pool, TexSTAR. TexSTAR is privately managed, was organized in conformity with the Interlocal Cooperation Act and is managed in compliance with the Texas Public Funds Investment Act. The fair value of the investment pools approximates cost. The fair value of the City's position in the external investment pool is the same as the value of the pool shares.

F. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds," respectively, on the fund financial statements. Residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2015

G. Inventories

Inventories of enterprise funds are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased.

H. Restricted Assets

Amounts in governmental funds which are legally identified for specific purposes either by City ordinance or contractual obligation are reflected as restricted assets. When both restricted and unrestricted resources are available for use, it is the government's policy to use the restricted resources first, then unrestricted resources as they are needed.

Amounts in proprietary funds restricted for Community Development Block Grant Program are also included as restricted assets.

I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds.

The City defines capital assets as assets with an estimated useful life greater than one year and an initial individual cost of \$5,000 or more for land, machinery or equipment, buildings or improvements other than buildings. All capital assets are valued at historical cost or estimated historical cost if the actual historical cost is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. Interest incurred during construction is not capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Infrastructure assets (such as roads, bridges, curbs and gutters, streets and sidewalks, and drainage systems) purchased before October 1, 2003 have not been capitalized and are excluded from capital assets of governmental activities.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation over the following estimated useful lives:

Buildings	10-50 years
Infrastructure	10-40 years
Improvements other than buildings	10-50 years
Machinery and equipment	5-15 years

In the fund financial statements, capital assets used in governmental operations are accounted for as capital outlay expenditures of the governmental fund at the time of acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2015

J. Compensated Absences

Compensated absences are those absences for which employees will be paid, such as vacation and sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the City and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the City and its employees are accounted for in the period in which such services are rendered or in which such events take place.

In the governmental fund financial statements, compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expenditure and fund liability in the fund that will pay for the compensated absences. Therefore, a liability for these amounts is recognized only if they have matured, for example, as a result of employee resignations and retirements. In the government-wide and proprietary fund financial statements, compensated absences are accrued as incurred.

K. Long-term Obligations

The accounting treatment for long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the governmental activities column of the government-wide Statement of Net Position. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

L. Fund Equity

Government-wide statements

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – all other net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2015

Fund statements

Proprietary fund equity is classified the same as in the government-wide statements.

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, and/or unassigned.

Classification of fund balances

The *nonspendable* fund balance includes the portion of net resources that cannot be spent because of their form or because they must be maintained intact. Resources not in spendable form include supplies inventories and prepaid items, long-term advances to other funds net of deferred interest revenue, long-term receivable net of deferred interest revenue, nonfinancial assets held for resale, and unrealized change in the fair value of investments.

Some resources are spendable but are legally or contractually required to be maintained intact. Such resources include the principal of an endowment.

The *restricted* fund balance includes net resources that can be spent only for the specific purposes stipulated by constitution, external resource providers (creditors, grantors, contributors), laws and regulations of other governments, or through enabling legislation. The enabling legislation authorizes the City to assess, levy, charge or otherwise mandate payment of resources from external resource providers; those resources can be used only for the specific purposes stipulated in the legislation. The City's revenue generated through enabling legislation includes municipal court fees.

The *committed* fund balance includes spendable net resources that can only be used for specific purposes pursuant to constraints imposed by formal Council actions, no later than the close of the fiscal year. Those constraints remain binding unless removed or changed in the same manner employed to previously commit those resources.

The *assigned* fund balance includes amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Such intent should be expressed by the City Council or its designated officials to assign amounts to be used for specific purposes, but are neither restricted nor committed. Constraints imposed on the use of assigned amounts can be removed with no formal Council actions. The assigned fund balance is only reported in the General Fund.

The *unassigned* fund balance represents spendable net resources that have not been restricted, committed, or assigned to specific purposes.

Spending Prioritization in Using Available Resources

When both restricted resources and other resources (i.e., committed, assigned, and unassigned) can be used for the same purpose, the City budget considers restricted resources to be spent first.

When committed, assigned, and unassigned resources can be used for the same purpose, the flow assumption in the City budget is to spend in the sequence of committed resources first, assigned second, and unassigned last.

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2015

M. Interfund Transfers

Interfund services provided and used are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions in expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except interfund services provided and used and reimbursements, are reported as transfers.

N. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and the Texas Emergency Services Retirement System (TESRS) and additions to /deductions from TMRS's and TESRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS and TESRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

O. Post-employment Benefits

The City participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

Note 2. Legal Compliance – Budgets

In June of each year, all departments of the City submit requests for appropriations to the City Manager so that a budget may be prepared. The City Manager has ultimate responsibility for the budget and formulates the budget goals for the City under the direction of the City Council. The budget is prepared by fund, function, activity, and object, and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

In compliance with the state's uniform budget law, the City Manager files the proposed budget with the City Secretary and City Council before the 30th day prior to the date the City adopts its tax levy for the fiscal year. Once filed, the proposed budget is available for inspection by the public. The City is required to hold a public hearing on the proposed budget not less than 15 days after the budget is filed with the City Secretary and prior to the date the Council makes the tax levy. The City publishes notice of the public hearing in the official newspaper not more than 30 days nor less than 10 days before the hearing. Once the hearing